

**AIR QUALITY MANAGEMENT DISTRICT FUND
OF THE CITY OF TORRANCE, CALIFORNIA**

Annual Financial Report

Year ended June 30, 2011

(With Independent Auditors' Report Thereon)

**AIR QUALITY MANAGEMENT DISTRICT FUND
OF THE CITY OF TORRANCE, CALIFORNIA**

Annual Financial Report

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The Honorable City Council
City of Torrance, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Air Quality Management District Fund of the City of Torrance, California (a State of California Clean Air Act grant program accounted for as a Special Revenue Fund of the City of Torrance, California) as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the City of Torrance's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Air Quality Management District Fund of the City of Torrance for the year ended June 30, 2010 and, in our report dated December 22, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 2, the financial statements present only the activity of the Air Quality Management District Fund of the City of Torrance, California (a State of California Clean Air Act grant program accounted for as a Special Revenue Fund of the City of Torrance, California), and do not purport to, and do not present fairly the financial position of the City of Torrance, California as of June 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Air Quality Management District Fund of the City of Torrance, California as of June 30, 2011, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 9, 2011 on our consideration of the Air Quality Management District Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
December 9, 2011

**AIR QUALITY MANAGEMENT DISTRICT FUND
OF THE CITY OF TORRANCE, CALIFORNIA**

Balance Sheet

June 30, 2011

(With comparative totals for prior year)

Assets	2011	2010
Pooled cash and investments	\$ 129,742	116,756
Due from other government	36,311	45,341
Total assets	<u>\$ 166,053</u>	<u>162,097</u>
 Liabilities and Fund Balance		
Liabilities – accounts payable	\$ 2,777	3,219
Fund balance – restricted for public works	163,276	158,878
Total liabilities and fund balance	<u>\$ 166,053</u>	<u>162,097</u>

See accompanying notes to the financial statements.

**AIR QUALITY MANAGEMENT DISTRICT FUND
OF THE CITY OF TORRANCE, CALIFORNIA**

Statement of Revenues, Expenditures
and Changes in Fund Balance

Year ended June 30, 2011

(With comparative totals for prior year)

	<u>2011</u>	<u>2010</u>
Revenues:		
Motor vehicle fees – AB 2766 Subvention Funds	\$ 164,780	168,835
Investment earnings	<u>2,132</u>	<u>3,603</u>
Total revenues	<u>166,912</u>	<u>172,438</u>
Expenditures:		
Salaries and employee benefits	42,807	44,976
Materials and supplies	51,987	68,993
Professional services and contracts	<u>67,720</u>	<u>67,720</u>
Total expenditures	<u>162,514</u>	<u>181,689</u>
Excess (deficiency) of revenues over (under) expenditures	4,398	(9,251)
Fund balance at beginning of year	<u>158,878</u>	<u>168,129</u>
Fund balance at end of year	<u><u>\$ 163,276</u></u>	<u><u>158,878</u></u>

See accompanying notes to the financial statements.

**AIR QUALITY MANAGEMENT DISTRICT FUND
OF THE CITY OF TORRANCE, CALIFORNIA**

Notes to the Financial Statements

Year ended June 30, 2011

(1) General

California Assembly Bill 2766 authorizes air pollution control districts to levy fees on motor vehicles. Fees are to be used to reduce air pollution. Under this program, the Department of Motor Vehicles collects resulting fees and transfers appropriate amounts to the South Coast Air Quality Management District (SCAQMD) for vehicles registered in the South Coast District. Forty cents of every dollar collected by the SCAQMD is allocated to cities and counties within the jurisdiction of the SCAQMD on a proportionate basis to each agency's respective population. The amounts attributable to the City of Torrance, California (the City), are maintained in a Special Revenue Fund, a government fund administered by the City.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying fund financial statements for the Air Quality Management District Fund (AQMD Fund) of the City of Torrance, California, have been prepared on the modified-accrual basis of accounting. Revenues are recognized when they become "susceptible to accrual," that is, measurable and available to finance expenditures of the current period. Motor vehicle fee receipts are considered susceptible to accrual, if received within 60 days of year-end. Expenditures are recorded when the liability is incurred.

(b) Measurement Focus

Governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that generally only current assets and current liabilities are included on their balance sheet. Statement of Revenues, Expenditures, and Changes in Fund Balance for governmental funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financial uses) in net current assets.

(c) Fund Accounting

The accounts of the City of Torrance are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts. Monies received under AB2766 are recorded in a Special Revenue Fund, the Air Quality Management District (AQMD) Fund, that is used to account for the proceeds of revenue to be used for the purpose of implementing the California Clean Air Act. The accompanying financial statements are not intended to present the financial position and results of the operations of the City nor the City as a whole in conformity with accounting principles generally accepted in the United States of America. The City's AQMD Fund includes a rideshare project funded by AB2766 subvention funds and discretionary grant projects funded by the Mobile Source Air Pollution Reduction Review Committee. (MSRC).

Due to the implementation of GASB No. 54, the components of the fund balance now reflect the component classifications described below. Prior year amounts have been restated to reflect the component designations required by GASB No. 54.

**AIR QUALITY MANAGEMENT DISTRICT FUND
OF THE CITY OF TORRANCE, CALIFORNIA**

Notes to the Financial Statements

Year ended June 30, 2011

Fund balance is reported in the following classifications:

Nonspendable Fund Balance

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Board action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Committed Fund Balance – this includes amounts that can be used only for the specific purposes determined by a formal action of the Board. It includes legislation (Board action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Board action limiting the use of funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The City considers a resolution, an ordinance, or a minutes action to constitute a formal action of Board of Directors for the purposes of establishing committed fund balance.

Assigned Fund Balance – this includes amounts that are designated or expressed by the Board, but does not require a formal action like a resolution or ordinance. The Board may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes. Such delegation of authority has been granted to the Executive Director.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Council.

(d) Comparative Data

The AQMD Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance shows comparative data for the fiscal year ended June 30, 2010 for comparative purposes only.

**AIR QUALITY MANAGEMENT DISTRICT FUND
OF THE CITY OF TORRANCE, CALIFORNIA**

Notes to the Financial Statements

Year ended June 30, 2011

(3) Pooled Cash and Investments

Unspent funds received for the Air Quality Management District Fund are pooled with the City's other cash and investments. The Air Quality Management District Fund's share of interest earned from the cash and investment pool is allocated on a monthly basis based on each fund's respective average monthly cash balance. No detailed categorization information is available for the Air Quality Management District Fund's pooled cash and investments. Detailed information regarding the City's pooled cash and investments program can be found in the City's Comprehensive Annual Financial Report. Such report is available from the City of Torrance Department of Finance, 3031 Torrance Blvd., Torrance, California 90503.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, investments are generally stated at fair value, rather than amortized cost, and the increase or decrease in fair value of investments is included as a component of income.



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The Honorable Members of the City Council
City of Torrance, California

**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Air Quality Management District (“District”) of the City of Torrance, California (a State of California Clean Air Act grant program accounted for as a Special Revenue Fund of the City of Torrance, California) as of and for the year ended June 30, 2011 and have issued our report thereon, dated December 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Air Quality Management District of the City of Torrance are free of material misstatement, we performed tests of its compliance with provisions of laws, regulations, contracts, and grant agreement and other matters, including Assembly Bill 2766 Chapter 1705 (44220 through 44247), noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the City of Torrance is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements of the Air Quality Management District of the City of Torrance, California, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

The Honorable Members of the City Council
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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Council and management of the Air Quality Management District of the City of Torrance and the South Coast Air Quality Management District and is not intended to be and should not be used by anyone other than these specified parties.

Mayor Hoffman Melam P.L.

Irvine, California
December 9, 2011